Board Action Bulletin

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NCUA BOARD MEETING RESULTS FOR DECEMBER 15, 2011

NCUA Board Proposes Key Regulatory Modernization Items for Comment

Proposal on RegFlex Relief Would Ease Regulatory Burdens; Loan Participation Protection Proposal Strengthens Safety

ALEXANDRIA, Va. (Dec. 15, 2011) – The National Credit Union Administration (NCUA) Board convened its thirteenth and final open meeting of 2011 at the agency's headquarters today and unanimously approved nine items. Specifically, the Board approved:

- a proposal to extend existing Regulatory Flexibility (RegFlex) provisions to all federal credit unions and provide regulatory relief, consistent with the Obama Administration's Executive Order 13579 and with appropriate safeguards;
- a proposed rule on loan participation protection to strengthen safety and soundness, covering all federally insured credit unions;
- an advance notice of proposed rulemaking on maintaining access to federal emergency liquidity sources for all federally insured credit unions;
- a significantly reduced budget for oversight and management of NCUA Guaranteed Notes in 2012, funded from the Temporary Corporate Credit Union Stabilization Fund;
- technical corrections to the final corporate credit union rule;
- amendments to the 2011–2014 NCUA Strategic Plan, to match the new requirements of the Government Performance and Results Act Modernization Act of 2011;
- the NCUA 2012 Annual Performance Budget, aligned with changes made to the 2011-2014 Strategic plan;
- an application for a community charter expansion for Henrico Federal Credit Union to serve the Richmond, Va., Metropolitan Statistical Area; and
- a delegation to senior agency officials for the authority to implement programs required for national security involving continuity of operations and protecting classified information.

Additionally, the Board received a monthly update from the Chief Financial Officer. The National Credit Union Share Insurance Fund (NCUSIF) equity ratio at the end of November remained constant at 1.32%. The net position of the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) in November remained virtually unchanged from October's results.

RegFlex Relief Provided for All Federally Chartered Credit Unions

The Board approved a proposed rule enabling all federal credit unions (FCUs) to engage in activities permitted by the existing RegFlex rule without the need to apply for a RegFlex designation. The proposed rule affects current regulation parts 701, 703, 723, and 742. The proposed rule complies with the intent of President Obama's Executive Order 13579 asking independent agencies to modify, streamline, expand, or repeal regulations to provide relief from unnecessary burdens.

"As NCUA continually reviews its regulations on a rolling, three-year cycle, we regularly look for ways to streamline and consolidate rules to reduce any unnecessary burdens on credit unions without compromising safety and soundness," said NCUA Board Chairman Debbie Matz. "Extending the current RegFlex provisions to all federal credit unions fits well with the President's directive to reduce regulatory burdens where appropriate."

The proposed rule would eliminate the charitable contributions rule and add relief provisions to rules that apply to eligible obligations, nonmember deposits, fixed assets, and investments. Under the proposed changes, FCUs would no longer have to qualify for a specific "RegFlex" designation. As of June 30, 2011, 60% of FCUs (2,764 of 4,534) were designated as RegFlex FCUs. The proposed changes would extend regulatory relief to the remaining 1,770 FCUs that do not currently have a RegFlex designation.

The RegFlex relief proposed rule has seven components. Specifically, the proposal would allow all FCUs to:

- Make charitable contributions to charities of their choosing;
- Accept non-member deposits, subject to predetermined limits, from local governmental entities or other credit unions;
- Use a six-year time horizon to partially occupy unimproved property they acquire for future expansion;
- Obtain certain exceptions to eligible obligations constraints;
- Enter into borrowing repurchase transactions in which the purchased securities have maturities that exceed the maturity of the borrowing repurchase agreement, provided the investment value does not exceed net worth, and subject to certain mismatch timing constraints;
- Purchase private-label commercial mortgage-related securities, subject to certain net worth constraints and four safety and soundness investment criteria; and
- Invest in zero-coupon securities, subject to certain net worth or investment maturity limits.

The proposal is issued with a 60-day comment period.

Proposed Loan Participation Protection Rule Would Cover all Federally Insured Credit Unions

The Board voted to put out for comment a proposed rule that would extend safety and soundness protections on loan participations to all federally insured credit unions.

Under the proposed rule, originators would be required to retain 10% of the original loan risk. (FCUs are already subject to this requirement.) Underwriting standards for loan participations must meet or exceed the underwriting standards that each purchasing credit union uses for originating their own loans. Credit unions buying participation interests must establish parameters for reviewing loan documentation, and for performing on-going due diligence on purchased loans.

Buyers would also be protected from acquiring undue concentrations. Loan participations purchased from one originating lender could not exceed 25% of net worth. Participation loans to one borrower could not exceed 15% of net worth. Credit unions could apply to NCUA Regional Directors for waivers of these limits.

"Loan participations are a valuable tool for credit unions to diversify loan portfolios, improve earnings, and manage their balance sheets," said Chairman Matz. "However, loan participations have the potential to create systemic risk. Large volumes of participated loans tied to a single originator, borrower, or industry – or serviced by a single entity – have the potential to impact multiple credit unions if problems occur."

According to June 2011 call report data, 1,401 federally insured credit unions hold over $12.4 billion worth of outstanding loan participations. Since 2007, loan participation balances have grown significantly – up 28% over the last four years – in an environment of extreme economic volatility.

Federally insured state-chartered credit unions (FISCUs) represent 68% of all participations sold and 55% of participations bought. FISCUs have consistently reported higher rates of delinquencies and charge-offs on loan participations – which is one reason why the proposal would extend loan participation protections to federally insured state-chartered credit unions.

The proposal is issued with a 60-day comment period.

Comments Sought on Four Options to Access Emergency Liquidity

The Board voted to seek public input through an advanced notice of proposed rulemaking to ensure that all federally insured credit unions have viable options to secure access to reliable federal sources of liquidity in times of financial crisis or economic distress.

"Experience has shown that when liquidity becomes scarce throughout the financial system, private sources of liquidity often dry up," noted Chairman Matz. "In a financial crisis, federal sources of liquidity are typically the only reliable sources. It is essential that before a crisis, credit unions have lined up a 100% reliable federal backup source of emergency liquidity."

The potential new rule would provide four potential sources for federally insured credit unions, including corporate credit unions, to access emergency federal liquidity:

1) Become a member in good standing of the Central Liquidity Facility (CLF) by directly purchasing a stock subscription;
2) Access the CLF through an agent, such as a corporate credit union;

3) Obtain and maintain demonstrated direct access to the Federal Reserve System discount window; or
4) Hold sufficient liquidity in-house with short-term Treasury securities.

The advanced notice of proposed rulemaking comment period will be 60 days.

Board Reduces 2012 Budget for NCUA Guaranteed Note (NGN) Securities Management and Oversight

The NCUA Board approved a proposed 2012 budget of $7.7 million for NGN securities management and oversight. The approved budget is 37% lower than the preliminary budget estimate of $12.2 million presented at the special open Board meeting in August 2011.

The approved budget covers costs incurred by NCUA offices in support of the on-going NGN program, which provided $28.3 billion in liquidity to stabilize the corporate credit union system. The budget covers the costs of overseeing securities valuations on a regular basis, including modeling cash flows and credit losses, processing complex accounting transactions, preparing regular financial reports, and supporting year-end financial statement audits.

The budget will be funded by the Temporary Corporate Credit Union Stabilization Fund.

In 2012 NCUA plans to post a website detailing the performance of the NGNs and their underlying legacy assets on a semiannual basis.

Technical Corrections Finalized in Corporate Credit Union Rule

The Board approved eight technical corrections to the final corporate credit union rule (part 704). They include revising the definition of "net assets" to exclude the value of Central Liquidity Facility stock subscriptions, and clarifying weighted average life tests.

The rule will become final 30 days after publication in the *Federal Register*.

NCUA's Strategic Plan Updated with Four Strategic Goals

The Board approved an updated 2011-2014 Strategic Plan, available at www.ncua.gov. The updated plan was necessary to incorporate changes required by passage of the 2011 Government Performance and Results Act Modernization Act affecting federal agencies.

Changes include:

- Shortening the effective plan period from six years to four years;
- Aligning future plan time spans to coincide with Presidential Election cycles; and
- Requiring Strategic Plan updates every two years, rather than every three years.

In the updated plan, two closely-related NCUA Strategic Plan goals were combined into one to eliminate redundancy. Associated performance indicators and targets were adjusted and aligned with the consolidated strategic goal.

NCUA's four 2011-2014 Strategic Plan goals as revised are:

- Ensure a Safe, Sound, and Healthy Credit Union System;
- Promote Credit Union Access to All Eligible Persons;
- Further Develop a Regulatory Environment that is Transparent and Effective, with Clearly Articulated and Easily Understood Regulations; and
- Cultivate an Environment that Fosters a Diverse, Well-Trained and Motivated Staff.

Three High-Performance Goals Set

The Board also approved NCUA's 2012 Annual Performance Budget, which is the agency's annual plan, based on the 2011-2014 Strategic Plan goals. The plan outlines NCUA objectives, strategies and initiatives for the year.

The 2012 Annual Performance Budget, available at www.ncua.gov, sets three measurable high-priority performance goals for 2012:

- Monitor and control risk in natural-person credit unions, as measured by net worth, long-term assets ratio, potential loss coverage ratio, and a reduction in losses to the NCUSIF,
- Continue to stabilize the corporate credit union system, as measured by the corporate credit union system capital ratio requirements, and
- Ensure natural-person credit unions that are members of bridge corporate credit unions transition from the bridge corporates without disruption of member services, as measured by the percent of credit unions which successfully transition.

National Security Delegations Established

The Board voted to delegate authority to staff to implement required programs as part of national security requirements related to continuity of government operations and safeguarding classified information.

There is no 2012 budget impact related to implementing these national security requirements.

Henrico FCU Community Charter Expands into Richmond MSA

The Board approved a request to expand the community charter for Henrico FCU in Henrico, Virginia, with $120 million in assets, to serve the Richmond Metropolitan Statistical Area (MSA). Board approval for the charter expansion was required because the Richmond MSA has a population over 1 million.

Henrico FCU submitted a business and marketing plan to serve the area's residents consistent wth the template provided in Chairman Matz's Letter to Federal Credit Unions in March 2011.

NCUSIF and Stabilization Fund: Financial Conditions Continue Steady Improvement

The NCUSIF equity ratio remained at 1.32% in November 2011. This ratio is calculated on an insured share base of $782.4 billion as of June 30, 2011. The equity ratio will be recalculated at year-end based upon the insured share base as of December 31.

During November, the NCUSIF reserve balance was unchanged, standing at $871.6 million. Net income for November was $7.3 million; cumulative net income for the year is $375 million. As of November 30, fourteen credit unions have failed in 2011, costing the NCUSIF $45.7 million.

As of November, 399 federally insured credit unions with assets of $31.2 billion and shares of $28.0 billion had CAMEL code 4 or 5 designations. Additionally, 1,735 CAMEL code 3 credit unions had assets of $142.2 billion and shares of $126.2 billion. Overall, approximately 17.3% of all credit union assets were in CAMEL code 3, 4, or 5 institutions. The November percentage of assets in CAMEL code 1 and 2 credit unions remained steady at 82.7% since October 31.

The Stabilization Fund total liabilities and net position stood at approximately $5.9 billion at the end of November, slightly higher than $5.89 billion at the end of October. The Stabilization Fund has $3.5 billion in outstanding U.S. Treasury borrowings.

As most key measurements showed no significant changes from month-to-month, the Board accepted Chief Financial Officer Mary Ann Woodson's recommendation to return to a quarterly schedule of Insurance Fund Report presentations. Monthly financial highlights will continue to be posted at www.ncua.gov for both the NCUSIF and the Stabilization Fund.

Financial data reported in 2011 are preliminary and unaudited.

All open NCUA Board meetings are tweeted live. Follow @TheNCUA on Twitter. Board Action Memorandums and NCUA rule changes are available online at www.ncua.gov.